



June 30, 2006

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, Massachusetts 02110

Re: The Berkshire Gas Company, D.T.E. 04-47

Dear Secretary Cottrell:

On April 27, 2004, The Berkshire Gas Company ("Berkshire" or the "Company") submitted for approval by the Department of Telecommunications and Energy ("Department") a Gas Portfolio Optimization Agreement ("Optimization Agreement") and a Gas Sales and Purchase Agreement ("Purchase Agreement") executed with BP Energy Company ("BP") pursuant to G.L. c. 164, §§76 and 94A. In an Order dated November 5, 2004, the Department approved the Optimization Agreement and Purchase Agreement subject to the condition that Berkshire provide an annual report for each year of the three-year term of the agreements. In that Order, the Department directed the Company to submit an annual report to the Department containing (i) a summary of all transactions on behalf of the Company; (ii) any proposed substantive changes to the Optimization Agreement including refinements to the allocation method; (iii) a description of the dollar amount of savings generated pursuant to the Optimization Agreement and how savings were allocated between and among Berkshire and affiliated local distribution companies that executed similar agreements with BP; and (iv) a description of any problems that arose during implementation of the Optimization Agreement. On March 24, 2005 the Company requested that the time for filing these annual reports be extended to June 30 which request was granted by the Department on March 31, 2005.

The second year of the term of the Optimization Agreement and the Purchase Agreement ended on March 31, 2006. Berkshire is pleased to provide its annual report addressing the requirements of the November 5, 2004 decision. As demonstrated in Attachment A, the level of savings achieved in the second year pursuant to the Optimization Agreement was substantial.

Optimization Savings

Total monthly optimization savings were identified and validated by performing a detailed monthly cash flow reconciliation for each month. This reconciliation is performed by Berkshire and each other LDC participating in the alliance. Additionally, on a quarterly basis, BP makes actual optimization payments to each LDC based on participating share as defined in the Optimization Agreement. Finally, at the end of each year, Berkshire and the other LDCs finalize the allocations for the 12 months ended March 31. At that time, the LDCs exchange funds to reconcile or "true up" based upon actual, verified savings and allocations.

The Berkshire Gas Company

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An Energy East Company

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Attachment A, page 2 provides the quarterly savings generated for Berkshire and the method of allocation used to establish the savings. This attachment presents the optimization dollars earned by Berkshire for the second year pursuant to the Optimization Agreement.

The Company has made two appropriate adjustments to the level of "gross" savings from alliance transactions properly allocated to Berkshire, both of which are reflected in Attachment A, page 1. First, the Company reflected the payments properly due to BP pursuant to Article IV of the Optimization Agreement. Namely, the "BP Energy Savings" were determined consistent with Section 4.3 of the Portfolio Agreement. Second, the Company appropriately retained a portion of the eligible optimization dollars as margin sharing and netted this amount against savings. Attachment A, page 3 provides a summary of margin sharing, comparing the second year optimization savings to the first year optimization savings by category.

Berkshire is pleased to report that the alliance resulted in significant cost savings beyond that which might be obtained from the Company's supply contracts. In addition, as noted by the Company in the case of D.T.E. 04-47, the alliance contributed to an overall resource planning strategy, providing substantial benefits in volatile market conditions experienced during the second year of the alliance term. Berkshire's customers will continue to enjoy the substantial benefits through the remaining year of the Agreement.

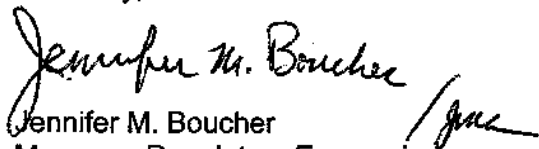
Implementation

The Company is pleased to report that the implementation of the Agreement has gone smoothly and only limited issues occurred during the year. The Company expects the positive, enhanced working relationship to continue in the remaining year of the term of the Optimization Agreement.

The Company respectfully requests that, for all the reasons stated in the Motion for Confidential Treatment dated April 27, 2004, the report on savings be accorded confidential treatment in that it discloses optimization strategies pursued by the Company. Accordingly, the report is only provided to the Department Staff and the Attorney General.

As always, should you have any questions, do not hesitate to contact me. Thank you for your consideration.

Sincerely,


Jennifer M. Boucher
Manager, Regulatory Economics

Attachment

cc: Service List D.T.E. 04-47
Karen L. Zink, President, Treasurer and COO
James M. Avery, Esq.

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